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Report of the Secretary-General

Updated terms of reference for the Independent Audit Advisory Committee

I. Introduction

1. The General Assembly, in its resolution 60/1 of 16 September 2005, requested the Secretary-General to submit detailed proposals on the creation of an independent oversight advisory committee, including its mandate, composition, selection process and qualification of experts (para. 164 (c)). In a report issued in response to that request, the Secretary-General set out proposed terms of reference for the Independent Audit Advisory Committee (see A/60/568, annex III).

2. In its resolution 60/248 of 23 December 2005, the General Assembly decided to establish the Independent Audit Advisory Committee to assist the Assembly in discharging its oversight responsibilities, and requested the Secretary-General to propose its terms of reference, ensure coherence with the outcome of the ongoing review of oversight and report to the Assembly at the second part of its resumed sixtieth session on related resource requirements. The terms of reference were

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accordingly submitted to the General Assembly by the Secretary-General in his report of 20 June 2006 (see A/60/846/Add.7).

3. Having considered the report of the Advisory Committee on Administrative and Budgetary Questions on the comprehensive review of governance and oversight within the United Nations and its funds, programmes and specialized agencies (see A/61/605), the General Assembly, in paragraph 3 of its resolution 61/245 of 22 December 2006, requested the Secretary-General to submit revised terms of reference for the Independent Audit Advisory Committee for consideration at the first part of its resumed sixty-first session.

4. The present report provides revised terms of reference for the Independent Audit Advisory Committee, arising from the recommendations contained in the report of the Advisory Committee on Administrative and Budgetary Questions on the comprehensive review of governance and oversight within the United Nations and its funds, programmes and specialized agencies, including the outcome of further consultations with the Office of Internal Oversight Services and the Board of Auditors (as detailed in sect. III below).

II. Details of changes to the proposed terms of reference for the Independent Audit Advisory Committee

5. In its report, the Advisory Committee on Administrative and Budgetary Questions identified the importance of an early decision to put into effect the Independent Audit Advisory Committee and recommended that the Secretary-General, after consulting with the Board of Auditors[1] and the Office of Internal Oversight Services, submit revised terms of reference for the Independent Audit Advisory Committee to the General Assembly which reflect, inter alia, the following key points:

(a) The purely advisory role of the Independent Audit Advisory Committee, with no operational functions;

(b) The responsibility of the Independent Audit Advisory Committee to advise the General Assembly on issues it considers appropriate concerning the scope, content and outcome of the work of audit entities.

6. In addition, the Advisory Committee:

(a) Noted that the role of the Independent Audit Advisory Committee is to serve in an expert advisory capacity to assist the General Assembly in discharging its oversight function;

(b) Opined that a smaller Independent Audit Advisory Committee would allow for greater ease of decision-making and that it should be composed of 5 members rather than 10;

(c) Underscored the importance of clear and verifiable qualifications and recommended that the General Assembly develop procedures to verify the qualifications of prospective members;

[1] Financial regulation 7.6 reads as follows: "The Board of Auditors shall be completely independent and solely responsible for the conduct of the audit".

(d) Reiterated that the autonomy of the secretariat of the Independent Audit Advisory Committee (like those of the secretariats of the Advisory Committee on Administrative and Budgetary Questions, the International Civil Service Commission and the Board of Auditors) should be ensured;

(e) Saw merit in the procedure whereby the Independent Audit Advisory Committee would undertake an expert technical review of the oversight budget and advise the General Assembly through the Advisory Committee of its findings and recommendations, in order to preserve the integrity of the budget review process.

7. The above-mentioned issues have been addressed fully in the attached terms of reference. Particular emphasis is drawn to the advisory nature of the Independent Audit Advisory Committee to the General Assembly, as set out in paragraph 1 of the terms of reference, and the requirement that Committee members have an understanding of the terms of reference governing the role of the Board of Auditors, in recognition of their independence (see annex, appendix, para. 4).

III. Consultation process and comments received

8. The terms of reference provided in the annex are the result of consultations undertaken with the Office of Internal Oversight Services and the Board of Auditors, as requested by the Advisory Committee on Administrative and Budgetary Questions in paragraph 50 of its report. Following extensive consultations with the Office of Internal Oversight Services and the Board of Auditors, numerous changes were made to the terms of reference in order to reflect the comments provided. As a result, some selectiveness has been necessary to maintain the integrity of the tasks of the Committee.

9. The Office of Internal Oversight Services is in agreement with the provisions in the draft terms of reference that have direct implications for the Office. In her comments, the Under Secretary-General for Internal Oversight Services reiterated the previous comments made by the Office of Internal Oversight Services regarding the critical importance of the members of the Committee, in particular their expertise. The Board of Auditors also provided comments on the terms of reference, many of which are reflected in the text. The Board of Auditors stated that it would continue to seek clarification with regard to the risk of overlapping functions between the Independent Audit Advisory Committee and the Advisory Committee on Budgetary and Administrative Questions. Such duplication might indeed impair the completion of the activities of the Board of Auditors.

IV. Qualifications, experience and independence of members

10. The terms of reference have been further clarified and simplified with respect to qualifications and independence criteria. All members must be suitably qualified with recent and relevant senior-level financial, audit and oversight-related experience, preferably including experience of membership in an audit committee. Within the context of the Independent Audit Advisory Committee, such financial expertise may be further defined as follows:

(a) An understanding of financial statements and generally accepted accounting principles;

(b) An ability to assess the general application of such principles in connection with the accounting for estimates, accruals and reserves;

(c) Experience in preparing, auditing, analysing or evaluating financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of issues faced by the United Nations, or experience in actively supervising one or more persons engaged in such activities;

(d) An understanding of the inspection, evaluation and investigative processes;

(e) An understanding of internal controls, risk management and procedures for financial reporting.

11. With respect to independence, the detailed appendix contained in earlier versions of the terms of reference is replaced by the requirement that all members of the Committee must be independent of the Secretariat of the United Nations, of the Governments of Member States and of the Board of Auditors, and that members must also be free from any material relationship with the Secretariat. In satisfying this requirement, members shall not hold any position or engage in any activity which might be liable to — or appear to — impair their impartiality in the exercise of their functions.

V. Appointment process, terms and compensation

12. The contracts of appointment for members of the Committee should be of three years' duration and non-renewable. To facilitate the best practice policy of rotation, transitional arrangements shall apply for the initial appointments to the Committee, with three of the five initial members being provided with non-renewable contracts of three years' duration and the remaining two initial members provided with non-renewable contracts of four years' duration.

13. The appointment process for members of the Committee will involve the following three stages:

(a) The identification of candidates;

(b) The technical assessment of candidates against the criteria for membership;

(c) The selection of qualified candidates by the General Assembly.

14. To ensure a suitably broad pool of qualified candidates, a variety of channels shall be used to solicit applications. Applications may be received from individuals, by the recommendation of a national or regional professional accountancy, audit or oversight institution, and by nomination of a Member State. In so doing, the background and experience of all candidates must be related to the criteria for membership, as set out in the appendix to the attached terms of reference.

15. The resultant list of candidates shall then be assessed against the technical criteria for the position by an international independent professional organization with experience in such matters and with due regard to geographical representation. Such an expert technical review will ensure coherence with the recommendations of the Committee that procedures exist in order to verify the qualifications of

prospective members and the conclusions of the oversight review with respect to transparency of qualification requirements and appointment procedures.

16. The final compendium of 10 or more suitably qualified candidates, with appropriate geographical representation, shall then be subject to consideration and selection for the positions by the General Assembly. This may occur through an election process.

17. In terms of compensation for all members of the Independent Audit Advisory Committee, it is proposed that a fixed fee be provided to compensate members for their role on the Committee. Compensation is necessary to attract suitably qualified candidates from all geographical regions and to facilitate compliance with the requirement for independence.

VI. Resource requirements

18. The comprehensive review of oversight recommends that the members of the Independent Audit Advisory Committee be compensated. The report also recommends that the Committee have a small full-time secretariat support unit. The resource requirements described below are based on the assumption that the Committee will become operational in October 2007.

Resource requirements

(In thousands of United States dollars)

	Resources			*Posts*		
	2006-2007			*2006-2007*		
Category	*Estimate*	*Change*	*Total*	*Estimate*	*Change*	*Total*
Regular budget						
Post	—	68.2	68.2	—	3	3
Non-post	—	382.7	382.7	—	—	—
Total	—	**450.9**	**450.9**	—	**3**	**3**

19. The total resource requirements for three months in 2007 are estimated at $450,900. The amount of $68,200 would provide for three posts (1 D-1, 1 P-3 and 1 General Service (Other level)) to provide administrative and logistical support for the work of the Committee. In particular, the secretariat support unit would assist in the preparation of the Committee's quarterly meetings and provide support during and after the meetings. The support unit would also play a logistical liaison role among the Committee, the Office of Internal Oversight Services, the Board of Auditors, management, other oversight bodies and the General Assembly.

20. The estimated amount of $382,700 under non-post requirements would provide for (a) non-staff compensation ($26,600) for members of the Independent Audit Advisory Committee (at $25,700 per annum for the Chairman and $20,200 per annum for other members); (b) consultancy fees to assist in the establishment of the Committee ($50,000); (c) travel and subsistence allowance for expert members of the Committee for its quarterly meetings ($79,600); (d) a provision to reimburse

travel-related expenses incurred during the technical assessments of candidates ($110,000); and (e) general operating expenses ($116,500), including rental and alteration of office premises ($86,800), communications ($1,600), maintenance of office automation equipment (centrally provided network and software support) ($1,800), supplies and materials ($500) and acquisition of office furniture and office automation equipment ($25,800).

VII. Conclusion and recommendations

21. **The General Assembly may wish to take note of the present report and its annex, and to:**

(a) **Approve the terms of reference for the Independent Audit Advisory Committee, as set out in the annex to the present report, including its mandate, composition, selection process and qualification of experts, as explained above, and the associated resource requirements;**

(b) **Appropriate $354,200 under section 1, Overall policymaking, direction and coordination, $86,800 under section 28D, Office of Central Support Services, and $9,900 under section 35, Staff assessment, to be offset by a corresponding amount under income section 1, Income from staff assessment, of the programme budget for the biennium 2006-2007.**

Annex

Updated terms of reference for the Independent Audit Advisory Committee to the United Nations

Role

1. The Independent Audit Advisory Committee serves the General Assembly in an expert advisory capacity to assist it in fulfilling its oversight responsibilities. Its function is to provide technical advice on issues the General Assembly considers appropriate concerning the scope, content and outcome of the work of the entities that audit the Secretariat of the United Nations.

Functions

2. The tasks of the Committee are, inter alia:

General

(a) To advise the General Assembly on the scope, results and cost effectiveness of audit and to provide comments to the General Assembly on the workplans of the entities that audit the Secretariat;

(b) To meet with the entities that audit the Secretariat and with management, as required, to discuss any matters that the Committee or those groups believe should be discussed collectively or privately with the Committee;

(c) To advise the General Assembly on progress made to enhance the compliance of management with internal and external audit recommendations;

Board of Auditors

(d) To discuss with the Board of Auditors and management the scope, results and any significant findings in its audit reports and to receive updates from management on action taken;

(e) To submit to the General Assembly, upon its request, the qualifications and criteria for the selection of candidates for membership of the Board of Auditors;

Internal Oversight

(f) To assess whether the Office of Internal Oversight Services is adequately resourced and continues to have appropriate standing within the United Nations;

(g) To review the budget proposal of the Office of Internal Oversight Services and make recommendations to the General Assembly;[a]

[a] The formal report of the Independent Audit Advisory Committee to the General Assembly on the budget proposals of the Office of Internal Oversight Services should be made available prior to the consideration of the budget proposal by the Advisory Committee on Administrative and Budgetary Questions and should then be submitted to the General Assembly together with the recommendations of the Advisory Committee on Administrative and Budgetary Questions.

(h) To challenge the basis for the internal audit programme with the Under-Secretary-General for Internal Oversight Services;

(i) To advise the General Assembly on the effectiveness of the Office of Internal Oversight Services;

Management of risk and internal controls

(j) To advise the General Assembly on the overall effectiveness of risk management procedures after consulting with management;

(k) To advise the General Assembly on the overall effectiveness of the system of internal control, including financial, operational and compliance controls;

(l) To address any significant findings, fraud, deficiencies in internal control or similar issues and to review management responsiveness to oversight findings and recommendations;

(m) To advise the General Assembly on the overall effectiveness of the United Nations whistle-blowing process as it impacts the overall integrity of the financial statements;

Financial reporting

(n) To advise the General Assembly on the integrity of the audited financial statements of the United Nations and any significant financial reporting observations contained in them;

(o) To consider the appropriateness of accounting standards and disclosure practices and to assess changes in accounting standards and the degree of risk in the underlying accounting principles and estimates;

Other

(p) To evaluate or request a peer review of its own performance on a regular basis.

Membership

3. The Committee shall comprise five members. The criteria for membership, including qualification and independence requirements, are set out in the appendix.

Meetings and reporting

4. The Independent Audit Advisory Committee may adopt its own rules of procedure, which shall be communicated to the General Assembly. The Committee shall meet at least four times per year, in coordination with the relevant activities of the United Nations and the General Assembly. The Committee shall seek to work on the basis of consensus and shall maintain records of its meetings. The quorum shall be any three members of the Committee.

5. The main output of the Committee shall be in the form of an annual report to the General Assembly containing the advice of the Committee to the General Assembly and describing its work in discharging its responsibilities. The Committee

shall also report key findings and matters of significance to the General Assembly at any time. The Chairperson of the Committee shall attend hearings to respond to any questions of Member States on the activities and findings of the Committee. The Chairperson may also brief the Secretary-General periodically on the key findings of the Committee.

Conditions of service

6. Members will be remunerated by the United Nations for fulfilling their role on the Committee and shall serve three-year, non-renewable terms, with the exception of two of the first five members of the Committee, who shall be elected to serve for four years to facilitate continuity.

Review of the terms of reference

7. The Committee shall review, at least every three years, the adequacy of its present terms of reference and, where necessary, propose changes to the General Assembly for consideration and approval. The terms of reference and mandate of the Committee shall be subject to periodic review and renewal by the General Assembly.

Secretariat support

8. The Committee shall be supported by a dedicated secretariat that will operate with autonomy similar to that of the secretariats of the Advisory Committee on Administrative and Budgetary Questions and the International Civil Service Commission.

Appendix

Criteria for membership of the Independent Audit Advisory Committee

Experience, qualifications and independence

1. All members of the Committee must be independent of the Secretariat of the United Nations, of the Governments of Member States and of the Board of Auditors. Members must also be free from any material relationship with the Secretariat.

2. All members must have recent and relevant senior-level financial, audit and oversight-related experience, preferably including experience as a member of an audit committee.

Identification and selection

3. Members are selected by the General Assembly from a compendium of at least 10 suitably qualified candidates identified through a rigorous and transparent process, resulting from a technical assessment of the candidates, against the qualification, experience and independence criteria, by an independent international organization of appropriate stature.

Other responsibilities

4. Each Committee member shall quickly acquire an understanding of his or her detailed responsibilities; the functions, operations and risks of the Secretariat; and the terms of reference governing internal oversight[a] and external audit of the Secretariat.[b]

[a] See General Assembly resolutions 48/218 B and 54/244; and the Secretary-General's bulletin on the organization of the Office of Internal Oversight Services (ST/SGB/1998/2).

[b] See article VII and the associated annex of the Financial Rules and Regulations of the United Nations.